

Endowment Fund Investment Board

Analyst: Houston

Historical Summary

OPERATING BUDGET	FY 2004 Total App	FY 2004 Actual	FY 2005 Approp	FY 2006 Request	FY 2006 Gov Rec
BY FUND CATEGORY					
Dedicated	630,300	544,500	550,200	575,400	571,700
Percent Change:		(13.6%)	1.0%	4.6%	3.9%
BY OBJECT OF EXPENDITURE					
Personnel Costs	408,800	347,900	338,700	358,300	357,300
Operating Expenditures	215,700	172,000	206,500	209,600	206,900
Capital Outlay	5,800	24,600	5,000	7,500	7,500
Total:	630,300	544,500	550,200	575,400	571,700
Full-Time Positions (FTP)	5.00	5.00	4.00	4.00	4.00

Division Description

The State Legislature created the Endowment Fund Investment Board in 1969 (Idaho Code §57-718), after the passage of a constitutional amendment in 1968. Through active management of the endowment funds (§57-721) and the State Insurance Fund (§72-912), the Endowment Fund Investment Board provides income to the funds' beneficiaries and growth of principal through realized gains. The board is also responsible for contracting the investment managers for the Judge's Retirement Fund (§1-2008).

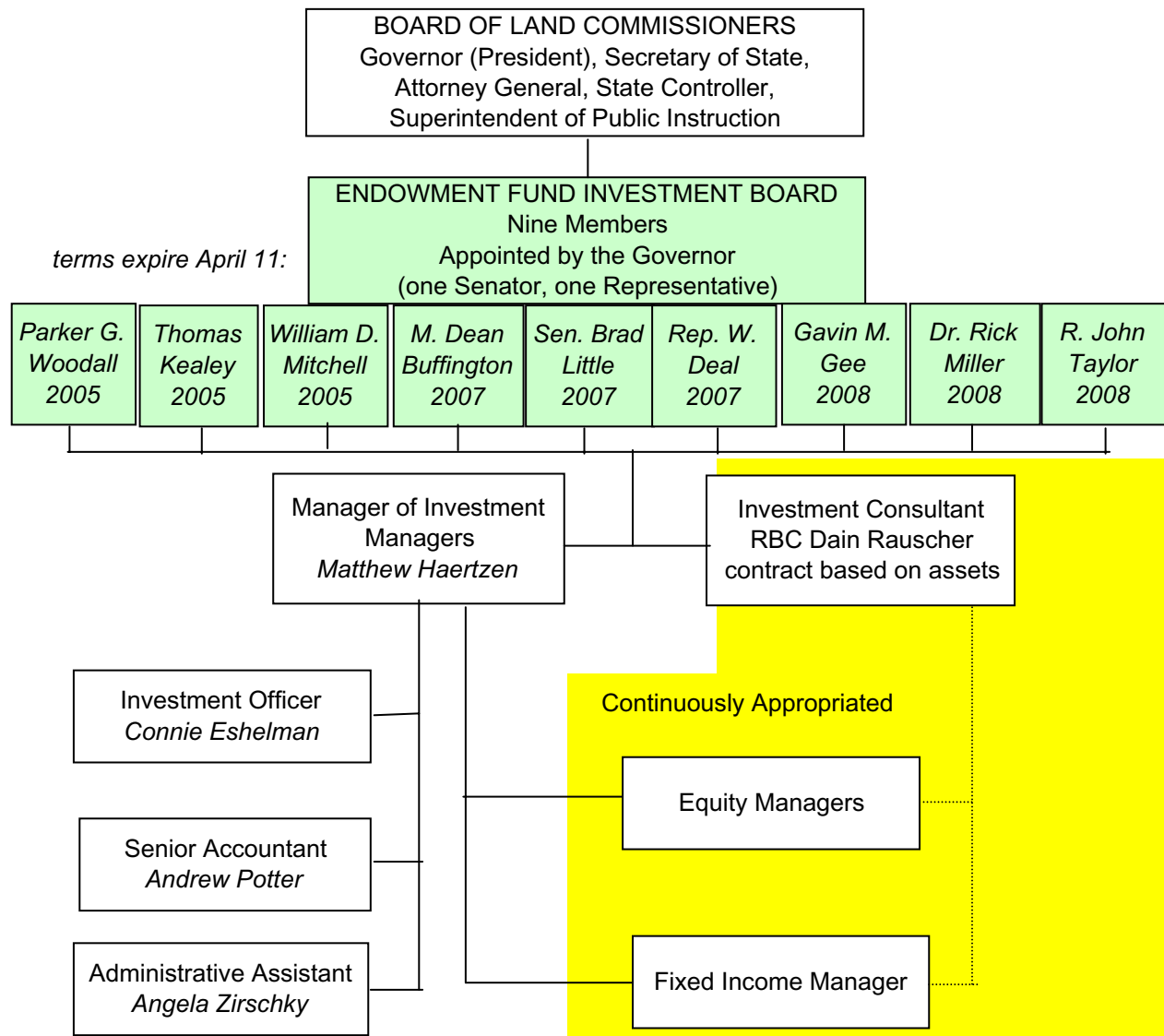
The 1998 legislature approved four pieces of legislation (HJM 9, HJR 6, HJR 8, and HB 643aa) that began the latest round of "Endowment Reform". 1) HJM 9 requested that Congress allow proceeds from the sale of public school endowment lands to be deposited into a land bank to be used to purchase other lands. Congress later approved the memorial. 2) HJR 6 proposed amendments to the state constitution to change the word "disposal" to "sale" and to allow a land bank. Voters approved the constitutional amendment but the Supreme Court later invalidated the amendment, ruling that the amendment contained two questions and was not put properly before the people. The land board resubmitted the constitutional amendment regarding the land bank as HJR 1 in 2000 and the electorate approved the amendment in November of 2000. 3) HJR 8 proposed amendments to the State Constitution to allow the permanent fund to be invested rather than loaned, to create an earnings reserve, and to allow for payment of administrative costs from the earnings reserve. Voters approved that constitutional amendment in November of 1998. 4) HB 643aa of 1998 set up the distribution mechanisms necessary for the permanent funds, the earnings reserve and the income funds. The bill moved the Endowment Fund Investment Board from the Governor's Office to the Land Board effective July 1, 2000. Therefore, actual expenditures before FY 2001 are shown in the Executive Office of the Governor. The legislation also set up a land bank, and changed the makeup of the Board. The makeup of the nine member Board changed to remove the Superintendent of Public Instruction and the Director of the Department of Finance and replaced them with two "public members from the citizenry at large who are knowledgeable and experienced in financial matters and the placement or management of investment assets" (§57-718). SB 1107 of 1999 changed the effective date of certain sections of HB 643aa to allow investment in equities effective February 15, 1999.

Furthermore, HB 690aa of 1998 established the Capitol Commission and the Capitol Endowment from the former Public Building Endowment. The legislation became effective on July 1, 1998 creating a potential conflict with HB643aa which became effective July 1, 2000. However, during the 2000 session, the legislature resolved that conflict by repealing the Public Building Endowment.

Endowment Fund Investment Board

Agency Profile

Analyst: Houston



Fund Sources	FY 2004	FY 2005	FY 2006
	Expenditures	Total Approp.	Request
1. Endowment Earnings Reserve Administrative Fund (0482-70)	414,700	402,000	404,300
Amendments to the Idaho State Constitution effective July 1, 2000 allowed the legislature to appropriate administrative costs from the endowment earnings. The legislature provides a fixed appropriation for the salaries and operating costs of the staff and a continuous appropriation for external investment costs. Separate statutory changes to the Capitol Endowment did not specify administrative uses by the Endowment Fund Investment Board.			
2. Miscellaneous Revenue Fund (0349-00)	129,800	151,000	171,100
The Endowment Fund Investment Board invests certain balances of the State Insurance Fund. This constituted approximately 31.95% of the Board's investments in FY 2004. The appropriation is adjusted annually to insure that earnings pay for the administrative costs of managing the State Insurance Fund portion of the Board's portfolio.			
Total	\$ 544,500	\$ 553,000	\$ 575,400

Endowment Fund Investment Board

Agency Profile

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State Insurance Fund - Performance

All dollar figures are in millions	FY 2003 Actual	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
1. State Insurance Fund Book Values	\$311.77	\$357.81	\$375.71	\$394.49
2. Cost of management by Endowment Fund Investment Board	\$0.14	\$0.13	\$0.15	\$0.17
3. Admin. cost as a percentage of funds under management (a basis point is 1/100 of 1%)	0.04%	0.04%	0.04%	0.04%
4. State Insurance Fund - Investment Gain	\$12.70	\$17.67	NA	NA
5. State Insurance Fund - percentage return	4.2%	2.1%	NA	NA

Endowment Funds - Performance

1. Beginning Value All Endowments July 1	\$663.8	\$653.5	\$761.5	\$799.5
Accrual adjustments to beginning value	0.0	\$1.3	0.0	0.0
Lands Contributions	\$51.5	\$63.9	\$58.0	\$55.8
Lands Expenses	(14.3)	(13.1)	(16.8)	(16.8)
Distributions to beneficiaries	(57.0)	(55.1)	(37.7)	(31.1)
EFIB Expenses	(3.3)	(2.8)	(2.7)	(2.8)
Investment Gain (Loss)	\$12.8	\$113.8	\$37.2	\$34.9
Ending Value June 30	<u>\$653.5</u>	<u>\$761.5</u>	<u>\$799.5</u>	<u>\$839.5</u>
Total Return reported or estimated by EFIB	3.7%	16.8%	5.0%	5.0%
Ballpark return*	1.9%	17.4%	4.9%	4.4%
* Ballpark percentage return calculated as the Investment Gain (Loss) over beginning value.				
2. Public School Endowment Fund Market Value	\$439.8	\$516.1	\$541.9	\$569.0
3. Pooled Endowment Funds Market Value	\$213.7	\$245.4	\$257.6	\$270.5
4. Total Public School and Pooled	<u>\$653.5</u>	<u>\$761.5</u>	<u>\$799.5</u>	<u>\$839.5</u>
5. Public School Endowment Distribution	\$37.1	\$37.8	\$23.0	\$18.5
6. Pooled Endowment Distribution	\$19.9	\$17.4	\$14.7	\$12.7
7. Public School and Pooled Distributions	<u>\$57.0</u>	<u>\$55.1</u>	<u>\$37.7</u>	<u>\$31.1</u>
8. Cost of outside consultants, equity managers, and bank fees	\$2.5	\$2.2	\$2.3	\$2.4
9. Cost of management by Endowment Fund Investment Board	\$.4	\$.4	\$.4	\$.4
10. Admin. cost as a percentage of funds under management (a basis point is 1/100 of 1%)	0.45%	0.34%	0.34%	0.33%

Endowment Fund Investment Board Agency Profile

Analyst: Houston

Endowment Distributions to the Beneficiaries

On August 31, 2004, the Endowment Fund Investment Board (EFIB) submitted their budget request to the Division of Financial Management and the Legislative Services Office. The budget contains their endowment distribution recommendations for FY 2006. For public schools, the FY 2006 recommendation is \$4.5 million less than the FY 2005 appropriation. Including the pooled endowments, the FY 2006 distribution is \$6.55 million or 17.4% less than this year.

Fiscal Year				\$ Change from previous year			% Change from previous year		
	Pooled	Public Schools	Total Pooled & Public Schools	Pooled	Public Schools	Total Pooled & Public Schools	Pooled	Public Schools	Pooled & Public Schools
2006*	12,655,800	18,469,700	31,125,500	(2,062,600)	(4,488,100)	(6,550,700)	(14.0%)	(19.5%)	(17.4%)
2005*	14,718,400	22,957,800	37,676,200	(2,636,600)	(14,792,200)	(17,428,800)	(15.2%)	(39.2%)	(31.6%)
2004	17,355,000	37,750,000	55,105,000	(2,570,000)	693,500	(1,876,500)	(12.9%)	1.9%	(3.3%)
2003	19,925,000	37,056,500	56,981,500	(2,040,000)	(10,618,500)	(12,658,500)	(9.3%)	(22.3%)	(18.2%)
2002	21,965,000	47,675,000	69,640,000	1,215,000	2,975,000	4,190,000	5.9%	6.7%	6.4%
2001	20,750,000	44,700,000	65,450,000	1,524,717	1,946,189	3,470,906	7.9%	4.6%	5.6%
2000	19,225,283	42,753,811	61,979,094	2,118,383	1,422,696	3,541,079	12.4%	3.4%	6.1%
1999	17,106,900	41,331,115	58,438,015	910,750	1,290,316	2,201,066	5.6%	3.2%	3.9%
1998	16,196,150	40,040,799	56,236,949	336,808	3,881,001	4,217,809	2.1%	10.7%	8.1%
1997	15,859,342	36,159,798	52,019,140	1,118,948	4,781,702	5,900,650	7.6%	15.2%	12.8%
1996	14,740,394	31,378,096	46,118,490	2,214,084	951,841	3,165,925	17.7%	3.1%	7.4%
1995	12,526,310	30,426,255	42,952,565						

Fiscal Year	Agricultural College	Charitable Institutions ¹	Normal School ²	Penitentiary	School of Science	Mental Hospital	University of Idaho	Total Pooled
2006*	745,900	2,641,400	2,386,500	926,900	2,664,900	1,227,000	2,063,200	12,655,800
2005*	760,800	2,814,900	2,741,300	1,134,200	3,136,900	1,499,400	2,630,900	14,718,400
2004	960,000	3,430,000	3,195,000	1,215,000	3,785,000	1,660,000	3,110,000	17,355,000
2003	1,139,000	4,070,000	3,695,000	1,358,000	4,254,000	1,905,000	3,504,000	19,925,000
2002	1,280,000	4,673,000	4,068,000	1,566,000	4,709,000	2,024,000	3,645,000	21,965,000
2001	1,127,000	4,502,000	3,788,000	1,521,000	4,479,000	1,845,000	3,488,000	20,750,000
2000	964,277	3,806,215	3,870,068	1,251,157	3,778,442	2,462,520	3,092,604	19,225,283
1999	873,990	3,840,734	3,312,164	1,200,994	3,535,388	1,716,600	2,627,030	17,106,900
1998	888,342	3,395,470	3,158,530	1,122,762	3,096,427	1,944,081	2,590,538	16,196,150
1997	819,356	3,586,560	3,214,554	1,122,666	3,244,258	1,394,933	2,477,015	15,859,342
1996	770,790	3,132,278	2,721,294	1,282,320	2,806,409	1,581,336	2,445,967	14,740,394
1995	722,892	2,850,557	2,441,476	248,952	2,506,060	1,408,037	2,348,336	12,526,310

¹ Charitable Institutions: 4/15 Idaho State University, 4/15 State Juvenile Corrections Center, 4/15 State Hospital North, 5/30 Veterans Home, and 1/30 School for the Deaf and the Blind.

² Normal School: 1/2 to ISU College of Education and 1/2 to Lewis Clark State College.

Note: FY 2001 was the first year after endowment reform. Distributions were based on a percent of the 3 year moving average of the permanent funds as shown except the FY 2003 Public School (PS) payout was short of the 7.5% budgeted payout by \$6,256,500, resulting in a 6.4% payout. All distributions before FY 2001 included lease and interest revenues from the department of lands. Timber revenues were deposited to the permanent fund.

* FY 2005 Appropriation, FY 2006 Estimate

Spending Rule		
Fiscal Year	Pooled	Public Schools
FY 06*	6.0%	4.0%
FY 05*	7.0%	5.0%
FY 04	7.5%	7.5%
FY 03	7.5%	6.4%
FY 02	8.0%	8.0%
FY 01	8.5%	8.5%

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Comparative Summary

Decision Unit	Agency Request			Governor's Rec		
	FTP	General	Total	FTP	General	Total
FY 2005 Original Appropriation	4.00	0	550,200	4.00	0	550,200
HB 805 One-time 1% Salary Increase	0.00	0	2,800	0.00	0	2,800
Governor's Rescission	0.00	0	0	0.00	0	(600)
FY 2005 Total Appropriation	4.00	0	553,000	4.00	0	552,400
Non-Cognizable Funds and Transfers	0.00	0	0	0.00	0	0
FY 2005 Estimated Expenditures	4.00	0	553,000	4.00	0	552,400
Removal of One-Time Expenditures	0.00	0	(7,800)	0.00	0	(7,700)
Base Adjustments	0.00	0	0	0.00	0	500
FY 2006 Base	4.00	0	545,200	4.00	0	545,200
Benefit Costs	0.00	0	4,300	0.00	0	3,300
Inflationary Adjustments	0.00	0	2,700	0.00	0	0
Replacement Items	0.00	0	7,500	0.00	0	7,500
Nonstandard Adjustments	0.00	0	400	0.00	0	400
Change in Employee Compensation	0.00	0	3,200	0.00	0	3,200
27th Payroll	0.00	0	12,100	0.00	0	12,100
Fund Shifts	0.00	0	0	0.00	0	0
FY 2006 Program Maintenance	4.00	0	575,400	4.00	0	571,700
1. Continuous Appropriation	0.00	0	0	0.00	0	0
FY 2006 Total	4.00	0	575,400	4.00	0	571,700
Change from Original Appropriation	0.00	0	25,200	0.00	0	21,500
% Change from Original Appropriation			4.6%			3.9%

Endowment Fund Investment Board

Analyst: Houston

Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
FY 2005 Original Appropriation	4.00	0	550,200	0	550,200
HB 805 One-time 1% Salary Increase					
Agency Request	0.00	0	2,800	0	2,800
Governor's Recommendation	0.00	0	2,800	0	2,800
Governor's Rescission					
Agency Request	0.00	0	0	0	0
<i>The Governor recommends removal of \$100 not needed to implement HB 805. In addition, the Governor recommends removal of \$500 risk management funding in excess of needs calculated by the Department of Administration.</i>					
Governor's Recommendation	0.00	0	(600)	0	(600)
FY 2005 Total Appropriation					
Agency Request	4.00	0	553,000	0	553,000
Governor's Recommendation	4.00	0	552,400	0	552,400
Non-Cognizable Funds and Transfers					
Adjust .40 positions between Miscellaneous Revenue Fund and Endowment Administrative Fund for budgeting purposes.					
Agency Request	0.00	0	0	0	0
Governor's Recommendation	0.00	0	0	0	0
FY 2005 Estimated Expenditures					
Agency Request	4.00	0	553,000	0	553,000
Governor's Recommendation	4.00	0	552,400	0	552,400
Removal of One-Time Expenditures					
Remove funding provided for one-time items.					
Agency Request	0.00	0	(7,800)	0	(7,800)
Governor's Recommendation	0.00	0	(7,700)	0	(7,700)
Base Adjustments					
Agency Request	0.00	0	0	0	0
<i>Restore risk management rescission to the base.</i>					
Governor's Recommendation	0.00	0	500	0	500
FY 2006 Base					
Agency Request	4.00	0	545,200	0	545,200
Governor's Recommendation	4.00	0	545,200	0	545,200
Benefit Costs					
Includes the employer-paid portion of estimated changes in employee benefit costs. The two biggest factors are health insurance rates and retirement rates. Health insurance is projected to increase by 9.7% or \$632 per position. Retirement rates are scheduled to increase by 5.9% from 10.39% to 11% of salary for regular employees. Other benefit changes include a reduction in unemployment insurance rates, a reduction in Division of Human Resources rates for classified employees, and an increase in workers compensation rates.					
Agency Request	0.00	0	4,300	0	4,300
<i>The Governor does not recommend increases related to changes in the Public Employee's Retirement System.</i>					
Governor's Recommendation	0.00	0	3,300	0	3,300

Endowment Fund Investment Board

Analyst: Houston

Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
Inflationary Adjustments					
Includes a general inflationary increase of 1.3% in operating expenditures and trustee/benefit payments.					
Agency Request	0.00	0	2,700	0	2,700
<i>The Governor recommends no increase for general inflation.</i>					
Governor's Recommendation	0.00	0	0	0	0
Replacement Items					
Includes \$5,000 to replace a network server and \$2,500 to replace two personal computers. The request is 1/3 from Miscellaneous Revenue Fund and 2/3 from the Endowment Administrative Fund.					
Agency Request	0.00	0	7,500	0	7,500
Governor's Recommendation	0.00	0	7,500	0	7,500
Nonstandard Adjustments					
The Statewide Cost Allocation Plan assesses state agencies for their prior-year actual use of certain services. Non-standard adjustments include (\$4,300) Attorney General fees and \$4,700 for State Controller fees.					
Agency Request	0.00	0	400	0	400
Governor's Recommendation	0.00	0	400	0	400
Change in Employee Compensation					
Reflects the cost of a 1% salary increase for permanent and group positions.					
Agency Request	0.00	0	3,200	0	3,200
<i>The Governor recommends a compensation increase of 1% to be distributed based on merit. No adjustment to the pay line is recommended.</i>					
Governor's Recommendation	0.00	0	3,200	0	3,200
27th Payroll					
Reflects the cost of one additional payroll in fiscal year 2006. This happens every eleven or twelve years because there are 364 days in 26 payperiods but a year has 365.242 days.					
Agency Request	0.00	0	12,100	0	12,100
Governor's Recommendation	0.00	0	12,100	0	12,100
Fund Shifts					
The request includes a fund shift of \$12,900 from the Endowment Administrative Fund to the State Insurance Fund to reflect an increase in the percentage of the State Insurance Fund's portion of the portfolio from 30.01% in FY 2003 to 31.95% in FY 2004.					
Agency Request	0.00	0	0	0	0
<i>The Governor recommends the fund shift as requested.</i>					
Governor's Recommendation	0.00	0	0	0	0
FY 2006 Program Maintenance					
Agency Request	4.00	0	575,400	0	575,400
Governor's Recommendation	4.00	0	571,700	0	571,700

Endowment Fund Investment Board

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
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1. Continuous Appropriation

The Endowment Fund Investment Board requests a continuous appropriation for consulting fees, bank custodial fees, and portfolio-related external costs. The variable costs associated with these services depend on the size of the portfolio and the turnover of investments. This uncertainty makes budgeting difficult. Legislative intent included in the appropriation bill allows the Legislature to re-evaluate the need for a continuous appropriation on an annual basis and to consider a fixed appropriation should the costs be determined to be more predictable. Actual costs paid through the continuous appropriation for FY 2001 were \$1,327,421 (the first full-year after endowment reform), \$3,215,995 for FY 2002, \$2,528,072 for FY 2003, \$2,178,500 for FY 2004, and are estimated to be about \$2.3 million for FY 2004 and \$2.4 million for FY 2005.

Language Requested: The Endowment Fund Investment Board is hereby granted continuous appropriation authority for consulting fees, bank custodial fees, and portfolio-related external costs for the period July 1, 2005, through June 30, 2006.

Agency Request	0.00	0	0	0	0
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Recommended by the Governor.

<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
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FY 2006 Total					
Agency Request	4.00	0	575,400	0	575,400
<i>Governor's Recommendation</i>	<i>4.00</i>	<i>0</i>	<i>571,700</i>	<i>0</i>	<i>571,700</i>

Agency Request

Change from Original App	0.00	0	25,200	0	25,200
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% Change from Original App	0.0%		4.6%		4.6%
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Governor's Recommendation

<i>Change from Original App</i>	<i>0.00</i>	<i>0</i>	<i>21,500</i>	<i>0</i>	<i>21,500</i>
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<i>% Change from Original App</i>	<i>0.0%</i>		<i>3.9%</i>		<i>3.9%</i>
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